DECLASSIFIED (81) R
Am. Republics 47-
20034

CONFIDENTIAL

UM D-85

March 20, 1950

UNDER SECRETARY'S MEETING

An Economic Program for the Other American Republics

The attached paper (Tab A) which has been submitted by Mr. Miller's office is tentatively scheduled for consideration at the Under Secretary's Meeting on March 24. Tab B is the "Recommendation to the Secretary of State, Submitted by the Conference of United States Chiefs of Mission, Rio de Janeiro, Regarding An Economic Program for the Other American Republics."

Mr. Miller has designated Mr. Ivan White, ARA/E, to receive comments any interested party may wish to make on the paper before the meeting. Mr. White is in room 4255, New State, and may be reached on telephone extension 4438.

W. J. McWilliams

DEPARTMENT OF STATE A/CDC/MR
REVIEWED BY ZITCHKE DATE 11/7/23
RDS☐or XDS☐EXT. DATE
TS AUTH. REASON(S)
ENDORSE EXISTING MARKING ☐
DECLASSIFIED/RELEASABLE ☒
RELEASE DENIED ☐
PA or FOI EXEMPTIONS

POLICY PLANNING STAFF

MAR 20 1950

Department of State

702211

TAB - A

CONFIDENTIAL

March 15, 1950

AN ECONOMIC PROGRAM FOR THE OTHER AMERICAN REPUBLICS

Problem:

To find a more effective approach to United States economic relationships with the other American republics.

Analysis:

The recent Conference of United States Chiefs of Mission in the ten South American republics studied, with Assistant Secretary Miller and Counselor Kennan, the present and prospective state of United States economic relationships with the other American republics. The conclusion reached was that these relationships in many cases were of an unsatisfactory character and not contributing to the attainment of basic U.S. foreign policy objectives in that region. In the Conference's judgment, this situation was traceable in larger part to the following factors:

1. Nonparticipation of Latin America in the Marshall Plan and the formulation of regional programs for other extra-hemisphere areas had unfavorable psychological repercussions among the Latin American countries, creating doubts that the United States is still a firm supporter of the Inter-American system.

2. Failure of the United States to implement to date the commitment made by Secretary of State Marshall at the Bogota Conference on April 1, 1948, when he said: "My Government is prepared to increase the scale of assistance it has been giving to the economic development of the American republics".

3. A parallel failure by many of the other American republics to take necessary measures to utilize national savings and encourage foreign direct private investment required for adequate economic development.

4. A complex

4. A complex of trade and payments difficulties which are proving disruptive to a sound and continuing expansion of Latin American trade.

5. The diffusion of responsibility among U.S. Government departments and agencies for policy formulation and field operations has prevented an integrated approach to U.S. economic relationships with individual Latin American countries, and, in some cases, has engendered unnecessary frictions.

It was recognized that any program to meet the problems noted above would have to be formulated within the framework of existing or pending appropriations and legislation.

More detailed analysis is contained in the attached document, titled "Recommendation to the Secretary of State, Submitted by the Conference of United States Chiefs of Mission, Rio de Janeiro, regarding an Economic Program for the Other American Republics". (TAB B)

Recommendations:

The recommendations of the Conference of U.S. Chiefs of Mission were specifically designed to meet the problems outlined above and incorporate several suggestions made by a similar conference of United States Chiefs of Missions in the Middle American republics. Key recommendations were:

A. General.

1. There should be a specific economic program for the other American republics.

2. The Inter-American Economic & Social Council (IA-ECOSOC) would, when possible, be looked to for the formulation and supervision of technical assistance projects of a multilateral character. In large part, this would constitute an expansion of activities already being undertaken by this body and associated organizations. Secondly, IA-ECOSOC might undertake the periodic compilation of regional reports, consolidating reports submitted by its members concerning the status of their economic development programs relative to the objectives of economic progress which they had established for themselves.

B. Organizational.

B. Organizational.

1. Subject to concurrence of both parties, U.S. economic relationships with another American republic would be conducted through the instrumentality of a joint economic commission, located in the capital of the other republic and operating on a continuing basis.

2. The terms of reference of such a commission would include (a) formulation of a joint economic development program, as provided in the Kee-Herter Bill, (b) continuous consultation and review of the implementation of the program, and (c) the study of trade and other economic relations between the two countries and the formulation of recommendations thereon to be submitted to the two governments.

3. Operations of all U.S. Government agencies affecting the economy of a given Latin American country should be directed towards the execution of a single comprehensive program for the development of which the U.S. diplomatic mission in the field should bear the primary responsibility. It therefore follows that the American members of a joint commission for economic development should be under the jurisdiction of and responsible to the U.S. Chief of Mission. U.S. Embassy officers would be included in the commission and would be expected to bear the principal U.S. responsibility for the longer-term process of program implementation.

American participation in the commission should include, at least during the program formulation period, technical experts drawn principally from the departments and agencies of the U.S. Government. Section 10 of the Kee-Herter Bill also provides that the commission "may include representatives of international organizations mutually agreed upon".

C. Economic Development.

1. The initial task of the joint commission would be to formulate a long-term development program with established objectives of economic progress to be attained within a stated period of time.

2. Such a commission would work out, within the framework of the long-term program, a plan of action covering the next year's activity. Such a plan would include definite provision with respect to the

magnitude

magnitude and areas of external public assistance required to make the program effective. The plan would also take account of specific steps that the Latin American country has in mind taking to give maximum effectiveness to the bilateral cooperation envisaged.

3. Each government would then review the long-term program and the short-term plan of action proposed by the commission and, subject to any agreed modification, a final decision would be made as to whether the two countries are in agreement and should endeavor to apply the formula.

4. In the case of the five Central American countries and Panama, consideration might be given to the use of a regional commission for economic development, as an alternative to the bilateral approach used elsewhere. A regional approach suggests itself for this area for the following reasons:

a) the small area and population of each of these countries and limited possibilities of economic development on a country basis.

b) the defined region would parallel the area encompassed by the Inter-American Highway and RFC abaca expansion programs under Congressional and administration consideration.

c) the Central American countries themselves have previously raised the question of finding a more effective means of economic cooperation within the group.

D. Trade.

The Conference recommended that the trade aspects of a Latin American economic program be subject to the following guiding principles:

1. That efforts be intensified to develop a favorable atmosphere in the United States for the progressive reduction of tariff and other barriers to the expansion of United States imports of Latin American products.

2. That in

2. That in situations where there is a high degree of dependence by a Latin American country on one or two commodities for the maintenance of the stability of its economic relations with the U.S., the U.S. should guard against abrupt fluctuations arising from U.S. government action.

3. That the other American republics be encouraged to remove impediments to intra-Latin American trade.

4. That, in appropriate cases, U.S. diplomatic support be given to efforts of the International Monetary Fund to obtain the adoption by certain Latin American countries of fiscal and exchange policies required to eliminate elements of disequilibrium in their balance of payments.

5. That with reference to the current Latin American-Western European trade situation, every effort be made to find a solution which will remove impediments to a restoration of two-way trade necessary to meet the objectives of both economic development in Latin America and of the European Recovery Program.

6. That joint programs of economic development with Latin American countries make adequate provision for the expansion of production of those items needed by Western Europe in larger quantities or capable of larger consumption in the United States and the other American republics.

7. That support be given, where feasible, to the effort of Japan to reestablish normal trade relationships with Latin American countries.

****

Attachment:

"Recommendation to the Secretary of State, Submitted by the Conference of U.S. Chiefs of Mission, Rio de Janeiro, regarding an Economic Program for the Other American Republics".

DECLASSIFIED

Tab B

CONFIDENTIAL

CONFERENCE DOCUMENT NO. 11

RECOMMENDATION TO THE SECRETARY OF STATE, SUBMITTED BY THE CONFERENCE OF UNITED STATES CHIEFS OF MISSION, RIO DE JANEIRO, REGARDING AN ECONOMIC PROGRAM FOR THE OTHER AMERICAN REPUBLICS

March 9, 1950

Introduction

Several recent developments point to the need both for a consistent and effective approach to economic development in Latin America and for prompt consideration of trade and payment difficulties of that area which might interfere with the attainment of U.S. foreign economic policy objectives. These developments include: (1) the consideration by Congress of revised Point 4 legislation suggesting the formulation of country economic development programs and the use of joint commissions; (2) the increased urgency of the "dollar gap" problem; and (3) the serious concern expressed by Latin Americans over the possible impact on their economies of other regional programs.

Furthermore, the irregular character of economic development in Latin America during the past decade demonstrates the need for (1) an integrated U.S. approach to each country situation, and (2) a formula which will maximize economic progress through more effective utilization of private and public financial and other resources, internal and external.

The increasing use of inter-American agencies by the American Republics for the accomplishment of their common objectives indicates, moreover, the desirability of carrying out some part of the economic program through the Organization of American States.

Finally/

DECLASSIFIED

Finally, nonparticipation of Latin America in the Marshall Plan and the formulation of regional programs for other extra-hemisphere areas had unfavorable psychological repercussions among Latin American countries, creating doubts that the United States is still a firm supporter of the Inter-American system. These doubts have been intensified by the failure of the United States to implement to date the commitment made by Secretary of State Marshall at the Bogota Conference on April 1, 1948, when he said: "My Government is prepared to increase the scale of assistance it has been giving to the economic development of the American Republics".

The key problem is to find an approach which will adequately treat the developments noted above within the framework of existing or pending appropriations and legislation. Such an approach would necessarily conform to the principle expounded by Secretary Acheson in his speech before the National Press Club on January 12, 1950, when he said that United States assistance to any independent foreign country can only be effective when it is the "missing component" in a situation otherwise favorable to economic and political progress.

GUIDING PRINCIPLES FOR THE ADMINISTRATION OF AN ECONOMIC PROGRAM FOR LATIN AMERICA

(1) The basic objective of the Point 4 Program, as defined by the President, is "to assist the peoples of economically under-developed areas to raise their standards of living". The Kee-Herter Bill states that "the economic and social progress of all peoples... will further the advance of human freedom, the secure growth of democratic/

DECLASSIFIED

democratic ways of life, the expansion of mutually beneficial commerce, and the development of international understanding and good will".

Within the terms of these larger objectives, the economic program for Latin America will have the following more particular objectives:

(a) to offer to individual Latin American countries the opportunity of participating in a program of economic development directed at achieving continuous and balanced progress in production and productivity for domestic consumption and to help reduce the world's dollar gap.

(b) to demonstrate to the Latin American countries that the United States recognizes the political, economic and strategic importance of Latin America to the objectives of American foreign policy in the world at large.

(c) to convince the peoples of Latin America that the noncommunist economic system is viable and will provide them with the best approach to the realization of their aspirations.

(d) to strengthen inter-American solidarity through the effective cooperation of the American republics for the achievement of their common goal of improved economic and social conditions of life.

(2) The following recommendations for the attainment of these objectives are proposed:

(a) All Latin American countries are eligible to participate in bilateral technical cooperation programs.

(b) All Latin/

DECLASSIFIED

(b) All Latin American countries are eligible to request the participation of the U.S. in the formulation of long-term economic development programs for each country. Participation by the U.S. would, of course, be contingent upon the countries meeting certain specific undertakings regarding their own participation and action.

(c) Projects of a multilateral character should, where possible, be formulated and administered through the medium of the IA-ECOSOC, the appropriate specialized agency of the OAS.

(3) It is believed that the economic relationships of the U.S. Government towards any recipient country are indivisible and that any development program to be effective requires the full and careful use of all the tools at the disposition of the U.S. Government. An adequate economic development program should include adequate participation of internal investment, treaties of commerce, navigation and economic development and double tax conventions, other specific measures which vary from country to country designed to create a more favorable atmosphere for direct foreign investment, joint projects of technical cooperation, and, finally, a larger measure of U.S. public investment through existing agencies in cases where other essential factors are contributing to a favorable situation.

* * * * * * * * * * *

The approach to economic development, including technical assistance, in Latin America should be a specialized regional one for the following reasons:

(a) it is desirable to adhere to the regional approach that has traditionally characterized the relations

of the/

of the United States within the community of the American states.

(b) the fact that U.S. technical assistance programs have been in effect in Latin America for a decade points to an approach based on using and expanding existing facilities and personnel.

(c) the dependence of U.S. assistance, technical and financial, for its effectiveness on the willingness and ability of individual Latin American countries to carry out effective programs creates a need for careful and specialized diplomatic preparation in the respective Latin American countries.

PRINCIPAL STEPS IN THE PLANNING OF PROGRAMS

In view of the foregoing regional objectives and considerations, it is proposed that a decentralized approach be made along the following lines:

(a) The extraordinary session of IA-ECOSOC would be used as a forum for the presentation of the suggested guiding principles of an economic program for Latin America. Emphasis would be placed on the provisions of the Kee-Herter Bill relating to the need for country development programs (Section 3B) and the use of joint commissions for economic development to formulate such programs (Section 10).

(b) IA-ECOSOC would, when possible, be looked to for the formulation and supervision of technical assistance projects of a multilateral character. In large part, this would constitute an expansion of activities already being undertaken by this body and associated organizations.

Secondly, IA-ECOSOC might undertake the periodic compilation of regional reports, consolidating reports submitted/

submitted by its members concerning the status of their economic development programs relative to the objectives of economic progress which they had established for themselves.

(c) Upon announcement of the passage of the Kee-Herter legislation the U.S. Chief of Mission would bring its provisions to the attention of the appropriate officials of the Latin American Government to which he was accredited and ascertain their reactions. In countries where it was considered that such an approach would be welcomed, the U.S. Chief of Mission would then:

1. Review U.S. economic relationships with the country, relative both to progress made and shortcomings, concluding that closer proximity between two countries in coordinated economic effort is desirable.

2. Discuss the guiding principles of the economic program and the tools which might be available for implementation of a long-term development program, including technical assistance and, in appropriate cases, the use of facilities of EXIMBANK and the International Bank. A reservation would be made that an integrated development program would not in itself guarantee external financial assistance, but that it would provide a more adequate framework for the preparation of specific projects and for their prompt and careful consideration. The extent to which U.S. assistance could actually be utilized would depend in large part on the self-help measures of the recipient country, the absence of which would make American aid ineffective.

3. Request/

3. Request the Latin American government to study the matter and to make a decision as to whether it regarded a program of joint participation as practical and desirable.

(d) The joint commission for economic development should be established as a continuing body located in the other American Republic (1) to make or cause to be made necessary studies and prepare the initial program, and (2) to provide continuous consultation and review of the implementation of the program. Furthermore the terms of reference of the joint commission would include the study of trade and other economic relations between the two countries and the formulation of recommendations thereon to be submitted to their respective governments.

American participation in the commission should include for the period of the first step technical experts drawn principally from the departments and agencies of the U.S. Government. Section 10 of the Kee-Herter Bill also provides that the commission "May include representatives of international organizations mutually agreed upon".

Operations of all U.S. Government agencies affecting the economy of a given Latin American country should be directed towards the execution of a single comprehensive program for the development of which the U.S. diplomatic mission in the field should bear the primary responsibility. It therefore follows that the American Members of a joint commission for economic development should be under the jurisdiction of and responsible to the U.S. Chief/

DECLASSIFIED

U.S. Chief of Mission. U.S. Embassy officers would be included in the commission and would be expected to bear the principal U.S. responsibility for the longer-term process of program implementation.

(e) The initial task of the joint commission would be to formulate a long-term development program with established objectives of economic progress to be attained within a stated period of time.

Such a commission would work out, within the framework of the long term program, a plan of action covering the next year's activity. Such a plan would include definite provision with respect to the magnitude and areas of external public assistance required to make the program effective. The plan would also take account of specific steps that the Latin American country has in mind taking to give maximum effectiveness to the bilateral cooperation envisaged. Reference to such matters is essential since they constitute interdependent parts of a total design. This is in accordance with the joint examination procedure provided in the Kee-Herter bill, as follows:

"(b) The duties of each such joint commission shall be mutually agreed upon, and may include, among other things, examination of-

(1) the requesting country's requirements with respect to technical assistance;

(2) the requesting country's resources and potentialities, including mutually advantageous opportunities for utilization of foreign technical knowledge and skills and investment;

(3) policies which will remove deterrents to and otherwise encourage the introduction, local development, and application of technical skills and the creation and effective utilization of capital, both domestic and foreign; and the implementation of such policies by appropriate measures on the part of the

requesting/

DECLASSIFIED

"requesting country and the United States, and of other countries, when appropriate, and after consultation with them."

Each government would then review the long-term program and the short-term plan of action proposed by the commission and, subject to any agreed modification, a final decision would be made as to whether the two countries are in agreement and should endeavor to apply the formula.

(f) In the case of the five Central American countries and Panama, consideration might be given to the use of a regional commission for economic development, as an alternative to the bilateral approach used elsewhere. A regional approach suggests itself for this area for the following reasons:

1.) The small area and population of each of these countries and limited possibilities of economic development on a country basis.

2.) The defined region would parallel the area encompassed by the Inter-American Highway and RFC abaca expansion programs under Congressional and administration consideration.

3.) The Central American countries themselves have previously raised the question of finding a more effective means of economic cooperation within the group.

(g) In the future, measures of U.S. financial assistance directed to other areas should be more carefully handled from the standpoint of their psychological and economic impact on Latin American countries,

DECLASSIFIED SOME TRADE/

SOME TRADE ASPECTS OF AN ECONOMIC PROGRAM FOR LATIN AMERICA

According to statistics recently made available by the Economic Commission for Latin America:

1. The past decade has been a period of net foreign disinvestment in Latin America, with that area's external debt, public and private, falling from the equivalent of 10.6 billion dollars in 1938 to 8.0 billion dollars in 1948.

2. Total dollar investment in Latin America during the past decade has remained in a static situation at a level of about four and a half billion dollars, with increased private direct investment having been offset by partial liquidation of dollar bond debt.

3. With Latin American exports to the United States at more than three times their prewar value level, dollar debt service is basically a much less onerous burden than a decade ago.

The conclusion reached from the foregoing is that from a repayment standpoint Latin America can absorb substantially larger sums of dollar investment required for economic development programs. The validity of this conclusion, however, is subject, in some cases, to the elimination of certain factors of disequilibrium existing in Latin America's current balance of payments situation.

The factor of controlling importance has been and remains the shift from Europe to the United States as a source for Latin American imports. In 1938 ERP country/